Conference Transcription

Date of conference	**:**	**29 March 2012**
Conference title	**:**	**Vienna Insurance Group AG – Results and Embedded Value for the Year 2011**

CONFERENCE DETAILS

Conference Date:	29 March 2012
Conference Time:	15:00 CET
Conference Duration:	Approximately 43 minutes
Chairperson:	Nina Higatzberger

ACT Operator

Ladies and gentlemen, thank you for standing by and welcome to the Vienna Insurance Group Results and Embedded Value for the Year 2011 conference call on 29 March 2012. Throughout today's presentation all participants will be in a listen-only mode. After the presentation there will be an opportunity to ask questions. If any participant has difficulty hearing the presentation please press *0 on your telephone for operator assistance.

I will now hand the conference call over to Ms. Nina Higatzberger. Please go ahead.

Nina Higatzberger

Thank you, Sandra. Ladies and gentlemen, welcome to today's conference for the year-end and embedded value results of Vienna Insurance Group. The presenting team here in Vienna consists of Martin Simhandl, our CFO.

Martin Simhandl

Hello, good afternoon.

Nina Higatzberger

Peter Hagen, Member of the Managing Board.

Peter Hagen

Good afternoon.

Nina Higatzberger

Peter Hofinger, Member of the Managing Board.

Peter Höfinger

Good afternoon.

Nina Higatzberger

Roland Gröll, Head of Group Finance and Accounting.

Roland Gröll

Good afternoon.

Nina Higatzberger

And Werner Matula, our Group Actuary in Chief.

Werner Matula

Good afternoon.

Nina Higatzberger

I now hand over to Martin Simhandl who will guide you through the presentation.

Martin Simhandl

Thank you, Nina. Ladies and gentlemen, it's a pleasure for me to present to you the year-end result of Vienna Insurance Group for the year 2011. Our Group is a well diversified group. It has shown its positive effects in many times and again in 2011. Out of that, we have reached excellent results.

Vienna Insurance Group is a group having an A+ rating, an excellent rating of Standard & Poor's with stable outlook and this has been confirmed recently. It's based on a sound capitalisation. Our Solvency I ratio in the end of the year 2011 is around 190%.

If we look closer to the year 2011 we see double digit growth rates in profit before taxes in major markets. In Slovakia and in Poland even more than 50% increase in result. If we look at the top line development especially life business grew very fast in CEE by more than 18% and substantial part of the growth coming s Versicherung Group in CEE with a premium growth in life of roughly 17%. By the way, the contribution of s Versicherung Group to VIG's profit before taxes is around 25% in the meantime. And last but not least, we have not only grown substantially. We have grown over the market in all major CEE markets.

The next slide in your presentation, that's slide five, gives key performance indicators. Profit before taxes is up by more than 10% to €559 million. This is the best result in the history of Vienna Insurance Group. The premiums grew by more than 3%, 3.4%. The premium growth in CEE was 7.7%. The combined ratio decreased substantially to 96.8% and the Group embedded value, more details will be given by Mr. Matula, increased to €5.3 billion. This reflects positive return on Group embedded value up to more than €300 million. We have in our market consisted embedded value a high new business profitability especially in our CEE business. And last but not least, in P&C, the surplus in claims and reserves and unearned premium reserves increased and reached almost €0.5 billion.

Next slide gives an overview of the financial highlights. Written premium grew to €8.9 billion. Profit before tax, I already mentioned, a plus of more than 10% to nearly €560 million. Net profit after taxes and minorities up to €407 million. Combined ratio, I already mentioned, 96.8%. Earnings per shares, €2.87 per share and also the ROE increased, ROE before taxes to 11.1%.

The next slide gives an overview on the income statement and on the balance sheet. Slide nine shows the figures of income statements. Gross written premium, I already spoke about. Financial result, I will elaborate more on that more detailed afterwards, decreased by roughly 17%. Expenses for claims and insurance benefits, although premium grew, decreased slightly. Also the acquisition and admin expenses decreased in 2011.

If we look at the balance sheet on the asset side, we see an increase in intangible assets. We see fairly stable development in investments. On the other hand, on the liability side, stable shareholders' equity, roughly stable technical provisions, insurance technical provisions.

Next slide gives more details about the profit and loss account. We start with written premiums. Here a split by countries. Austria on the one hand, a sound non-life growth; on the other hand, we have had negative effects out of these new tax regulations concerning single premium business. In Czech Republic, we have seen on the non-life side the effects of the competitive environment in the motor business. On the other hand we have seen a quite substantial growth in life insurance. In Slovakia, we have seen on both sides, non-life and life, good growth in non-life mainly out of MTPL in life. This is an effect out of the local s Versicherung company. In Poland, we saw substantial growth as well in life as in non-life. In non-life we grew by more than 9%. In life even much higher the growth. Here it's coming out from a tax driven single premium product.

In this slide we also showed the development of the s Versicherung Group in CEE and we see a very positive development as well on the top as on the bottom line side. On the top line side, in main markets, growth rates between 12% and 20% like in Czech, Slovakia, Romania, Hungary. The profitability development in s Versicherung Group is also very positive. The total profit before tax reached a level of €140 million last year.

Expenses for claims incurred, the claims ratio decreased by more than 1%. This is in Austria as well as in Czech and in Poland an effect out of better weather conditions. In Poland, in addition to that we see the effect of improved motor rates. In Slovakia, we see a fairly stable development. On the other hand, we see negative developments in Romania coming out from increased claims payment as well as from a regulatory change for the reserving of personal injuries. And in the other countries, remaining countries, we see a significant improvement in claims ratio and this comes mainly out from Bulgaria, Ukraine and Georgia.

Slide 13 gives an overview on the development of the cost ratio. The cost ratio in our Group decreased by 0.5%. We have seen a significant reduction in Austria. In Czech, on the first plans, there is an increase of more than 2% points. This comes from a specific effect out of no-claims bonuses paid by VIG Re. If we exclude that effect in Czech, we would have a fairly stable development on the cost side. Also a stable development in Slovakia, a better cost ratio in Poland. This is an effect out of economies of scale and shared services we are doing there. In Romania, we have worked very hard to bring down the cost ratio significantly and we succeeded in that. In remaining markets, if you look at the figures you see quite a substantial increase in the cost ratio. This is more than 6% but this is coming out from the depreciation of acquired insurance portfolios which we do over quite short period.

The next slide, slide 14, gives an overview on the financial result. What we see 2011 on the capital markets was quite a shaky year. The current income developed quite well on a solid basis, a plus. On the hand, we had less income from appreciations, less income from disposal of investments. We had on the other hand higher depreciations, higher losses from disposal of investments and of course we had significant higher impairment of investments which reached roughly €200 million last year. Overall, the financial result went down from €1.1 billion to €930 million this year.

The next slide gives a short overview on the assets of the Group. First on slide 15, investment split, it's quite stable development as well on the volume as on the composition. We have seen a slight increase of the stake of real estates and the rest more or less equal.

The next slide gives an overview on the bond portfolio. First we look what kind of bonds we hold in the Group. Overall, the last years we have seen an increase of the share of government bonds and decrease in the financial bonds and that also accounts for 2011. On the other hand, we see the rating development of our bond portfolio and we see here quite significant changes. We have to take into account there were some rating changes in the last year; I want to put your attention on the development of Czech Republic. On the other hand, and that counts also for this year, we will also see effects that have been in this year. Here we see the year-end 2011.

The next slide gives an overview of our exposure in PIIGS government bonds. As you know already, our exposure is very limited amounting to roughly 0.3% of the total investments.

Slide 18 gives an overview of the development of the shareholders' equity. On the one hand, we have had negative effects on currency changes and on the development of the unrealised gains and losses of the available for sale portfolio. On the other hand, we have the positive effect from the year's result. So, overall, we see a development which is fairly stable.

Last but not least, our solvency position which is shown on slide 19. Our Solvency I ratio in the end of the year 2011 is around 190% which is a strong and solid solvency position. This is after taking into account that due to the rising importance of the SAP software for our group we have acquired the majority share of a company called Central Point in 2011 and this is the company holding the SAP licenses and carrying out the SAP implementation and this of course had influence of the development of the intangible assets of our group.

Slide 20 gives an overview as well on the development of profit before taxes and you see there are some positive development. On the other hand, the development of dividend. Our dividend policy which is unchanged means a payout ratio of minimum 30% of the Group net profit and this is the reason why management goes for an increase of the dividend from €1 per share to €1.10 per share meaning a dividend payout of more than €140 million.

Concerning the embedded value I would like to hand over to Mr. Matula, please.

Werner Matula

Thank you very much. Ladies and gentlemen, before I go straight to the results of the embedded value results let me just mention that this year VIG formally moved to the market consistent embedded value.

Let's have a look on slide 22 about the development of the Group embedded value. We reported a GEV of €5.06 billion last year. The restated value increased to €5.19 billion. The restatement changes includes four major effects: first, the impact of an improved allocation of expenses to life and health and P&C; second, the inclusion of the surplus in P&C unearned premium reserves; third, the impact of a more accurate segmentation which resulted in a lower ANAV for the P&C segment in CEE and higher ANAVs in all the other segments; and finally, the inclusion of the s Versicherung's P&C business on basis of the ANAV.

The opening adjustments include mainly the dividends of €128 million paid by VIG in 2011 and foreign exchange rate effects resulting in an adjusted group embedded value of €4.97 billion. I will speak about the positive return on life and health on the following two slides. The return on the P&C business of €195 million is a result of the positive operating performance in 2011 and the increase of surplus in reserves to almost €500 million. This adds to a total return of €311 million or 6.3% of the adjusted GEV and results finally in a group embedded value of €5.28 billion for the year end 2011. Talking about the geographical split, CEE currently accounts for more than 60% of the total value.

On slide 23, you can see the return of the life and health business in Austria and Germany. The operating return includes a new business value of €34 million and a positive operating variance of €155 million. This operating variance is mainly due to the positive impact of higher than expected health insurance premium adjustments in Austria and improvement in the strategy models reflecting management actions much more appropriately. The new business value decreased from €43 million to €34 million due to lower sales volumes of single premiums, but the profit margin still remained stable at 2%. Negative economic variance of minus €278 million reflects the lower interest rates and increased volatility of the financial markets.

Coming to the CEE region on slide 24, the most significant impact is obviously the new business contribution. The new business value increased from €151 million to €162 million and the profit margin still remains at a very high level of 8.7%. Small economic variance of minus €17 million is due to the high proportion of the unit linked and term insurance product in these regions which are clearly less sensitive to yield curve changes.

To summarise, the 2011 group embedded value results indicate a very stable performance and confirm VIG's strategy in the CEE region which has once more outperformed Austria, Germany in both growth and profitability. Thank you for your attention and I believe we are ready for questions and I hand back to Nina now.

Nina Higatzberger

Sandra?

ACT Operator

Thank you. If any participant would like to ask a question, please press *1 on your telephone. If you wish to cancel this request, please press *2. Your questions will be polled in the order they are received. There will be a short pause whilst participants register for a question.

The first question comes from Bernd Maurer from RCB, please go ahead. Mr. Maurer your line is now open.

Bernd Maurer - RCB

Yes, hello. Did not expect to go first. Good afternoon. Two questions I do have. First, regarding the operating environment in some CEE regions especially Czech Republic, Poland non-life and Romania non-life and life, we saw in the final quarter of last year significantly weaker trends or significantly weaker performance than the trend shows in the period 1Q to 3Q. Do you expect this, is the kind of trend changing or rather a year end effect to describe it?. That's question one.

Question two refers to unrealised gains, losses in equity of more than €19 million in the fourth quarter. Can you please state to which securities this figure is mostly related to? Thank you.

Peter Hagen

OK, so Peter Hagen speaking, hello. Question concerning the business environment starting with Romania, we have reported several times at these telephone conferences that the development in non-life particularly in the motor business of Romania is not very well. We have adjusted our premium rate substantially particularly in the company called Omniasig which was our flagship in this country. This substantial rate increases have led to a reduction in business generated by this company and that is reflected obviously over the year. I have to say that we will continue to try to raise our rates in Romania to what we think is a sufficient level and we continue to believe that we are not yet there.

As concerns with Romania non-life, I do believe that also during first quarter this year we will still not see really a change in the trend in terms of the premium volume for some of the companies. Having said so, as we mentioned several times, we will not compromise there because we do believe that growth in this is currently very, very competitive and to a certain degree also the rationally competitive motor market doesn't make sense.

On the life side, this is a cyclical issue. In general and in total particularly the cooperation with BCR Bank develops very, very nicely and you might also see in the documentation that particularly the cooperation with the Erste Bank Group in general but also in Romania is developing very nicely on the single premium as well as this is particularly well received by us on the current premium level. On the life side, I am very positive.

Coming back to the Czech Republic, I am not really aware of what you are referring to in terms of reductions. What you see in the Czech Republic, what I can see in general, what you see in the Czech Republic in the market is that motor TPL due also to very good results there's a strong pressure on rates, obviously when you are a great motor player and we are, obviously you feel it. On motor TPL, I agree there is and there will continue to be a pressure on premium rates basically supported by very good results.

On other personal non-life lines of business, non-motor business, that is developing very nicely. We see high double digit growth in this area also at the start of this year. However having said so, that is obviously from a lower level and does not really compensate completely what you might lose on the motor TPL.

Bernd Maurer - RCB

I understand.

Peter Hagen

On the life side, that's again something cyclical depending on when single premiums are coming in but in total we are growing in the Czech Republic by 13% plus on the life side so we are not particularly unhappy with that development frankly speaking. It is very profitable business as Mr. Matula has pointed out on the Czech business and you can also see this in the documentation to the embedded value that a high degree of the new business value is supported by very successful sales in the Czech Republic.

Bernd Maurer - RCB

Thank you.

Martin Simhandl

Concerning your second question about the development of the unrealised gains and losses, the main impact surely came out from the spread effect meaning from fixed income securities and spreads on that.

Bernd Maurer - RCB

OK, thank you.

ACT Operator

The next question comes from Raphael Caruso from Raymond James, please go ahead.

Raphael Caruso - Raymond James

Hi, good afternoon everyone. Congrats for the good figures in such a complicated environment. I have two questions on my side. The first one is you mentioned 32% fall of inflows in life insurance in Austria. You seem to attribute this fall to the change in the statutory minimum locking period from 10 years to 15 years but in Continental Europe we know that there was a drop of inflows in life insurance which is also attributable to the fall of financial markets and of standard of living etc. Do you know which part of the inflows in attributable to the change of regulation in Austria or do you have a kind of idea?

My second question, and you once heard in the past, is you mentioned price increases in Romania in P&C, so in 2012 what are your outlooks concerning your pricing policy in your core market please? Thanks.

Peter Hagen

OK, Peter Hagen again. First question, the new business value of 2% and in fact the reduction in the money amount in Austria is really generated by the fact that we have less single premium and that less single premium volume is definitely coming from the change of the locking period. Basically, we are increasing the locking period to 15 years. People older than 55 almost completely lost interest in the single premium and that as we all know that particular between 55 and 60 this part of population is usually the one willing and able to do single premium. That is really due to that fact. Which does not say that in the future we will not see other impacts on the lifestyle. But for this particular period we are reporting on, that is certainly the issue.

Now, as regards to price increases in Romania, I was mentioning already, I am talking about MTPL. That is really the issue. In fact Romania even more so than in other countries about 80% of total premium volume is coming from motor and within motor, motor TPL particularly during crisis is playing a highly prominent role. Overall you can say if motor TPL rates are going down the whole market is going down. In fact, this is what is the case.

Our increase is as I said particularly necessary in the company Omniasig, to a certain degree also in BCR. This increases in several steps already and always in double digits. We are currently in a situation where we are combining the operation of BCR and Omniasig and when this will be finished - it was recently approved by the authorities - we will do the next step. How this next step will look like, frankly speaking, we have always to look a little bit about how the market is developing and also how the claims situation is developing. We see a little bit, and I should say only a little bit at this point of time, so I don't want to be too optimistic. We see a little bit of improvement there however that has also to do with the change and regulator and more scrutiny when it comes to reserving and the question of reinsurance etc, etc, so we see a certain let's say trend towards more discipline. However, I would not want to overstate this at this point.

Raphael Caruso - Raymond James

OK, thanks.

ACT Operator

As a reminder, if any participant would like to ask a question, please press *1. The next question comes from Ralph Hebgen from KBW, please go ahead.

Ralph Hebgen - KBW

Yes, hello, good afternoon. Ralph Hebgen from KBW. Four small things. One is I noticed that the tax rate went up in 2011 at the group level. Would you just be able to explain why that was? Second, last year you commented on a project going on in the life business in Czech Republic by which you transferred lots of traditional policies towards higher margin policies in the Czech Republic. That conversion, would you tell us something about the progress on that and in particular would you be able to illustrate how much the contribution to the new business value was from that specific conversion project in 2011. Then third, I noticed there was a sizeable transfer from the embedded value towards P&C, in other words of companies which I think you reclassified away from life business towards P&C. It will be interesting to hear about the reason for that and the dynamics driving that. And finally net realised gains contribution to pre-tax profits. Thanks very much.

Martin Simhandl

We would have been very disappointed if this does not come.

Ralph Hebgen - KBW

Yes, I know.

Martin Simhandl

Thank you very much for your questions. I think different people are answering. Let me start with the first. Tax rate, we have to take into account that we have the right on goodwill in non-life Romania in the end of the last year and of course this is not something that reduces the result but does not reduce the tax burden. Second question I would hand over to Peter.

Peter Hagen

Yes, the project went on. It's obviously not necessarily only done in view of the embedded value, so this is the project which is going on over probably years. We had a substantial part converted last year – excuse me, 2010. It continued in 2011 and there are still things to do in 2012. I am afraid I am cannot tell you exactly how much it contributed in total to the new business volume. However, I can say the contribution is substantial. But if you look at what Mr. Matula said and presented how little impact the economic part has on the MCEV then you can - that being the reason that we are more now on the unit linked and risk policy basis and less on the traditional endowment - then you can see how much this conversion process has already taken place. In a nutshell, the vast majority of the conversion has happened already, so you cannot expect to the same degree this will contribute to an increase next year. But to tell you exactly now what is the amount, frankly speaking, of this particular project I can't tell you.

Werner Matula

OK. Regarding your third question about the transfers between the segments, there are basically two effects which I would like to explain. One is we tried to identify exactly the segments to which we allocate the Group embedded value. For example, s Versicherung which was last year not yet based on the ANAV for P&C was for example still allocated in the life and health segment. Now it's allocated in according to its segment on the statutory accounts. This is one effect. The second effect is that under Austrian regulation it is possible to transfer assets between segments which happened also this year and this is what you see, for example, in Austria, Germany segments that we have a move from life to P&C and the other way around.

Roland Gröll

Your fourth question according to net realised gains, if you look at our extraordinary investment income, we include income from appreciations, income from the disposal of impairments and losses from the disposal of investments. If we add all these extraordinary items together we have about minus €80 million of losses out of our extraordinary investment result and by far the main part of these losses are in life. That means the impact on the bottom line is a single digit amount.

Ralph Hebgen - KBW

OK, that's great. Can I just have one follow-up? I appreciate that you cannot disclose exactly what the contribution of the conversion projects to the new business value is, but it would still help to give us a guideline, some sort of indication of what order of magnitude we are talking about here.

Peter Hagen

Well, it's a rough guideline what this project is contributing because you can see roughly 20% of the new business value.

Ralph Hebgen - KBW

OK, that's great. Thank you very much. So that was roughly 20% of new business value this year – sorry, in 2011. And how much roughly again might that have been in 2010?

Peter Hagen

More.

Ralph Hebgen - KBW

40%?

Peter Hagen

I cannot draw any –

Ralph Hebgen - KBW

I am not going nail you down on anything but it is just so that we are able to reach what the future growth or an organic ongoing basis might be.

Peter Hagen

This is what I tell you, this is something which I cannot tell you exactly but you can start with the assumption that the majority of the gains to be expected - the vast majority of the gains to be expected from this conversion is now consumed.

Ralph Hebgen - KBW

OK, perfect. Thank you very much indeed.

ACT Operator

The next question comes from Michael Haid from Main First Bank, please go ahead.

Michael Haid - Main First Bank

Thank you very much. Michael Haid from Main First Bank. Good afternoon. Three questions. First, on reserving I noticed your €500 million P&C surplus and claims and on premium reserves, can you - to my understanding this is the first time you mentioned this figure. Can you say how much it changed year-over-year and can you also say a word on the runoff profits or reserve releases you had in the combined ratio of 96.8% in 2011?

Second question on Romania, do you have structural disadvantages in P&C Romania to other players or do you run at higher costs here than other players?

The third question, on page 19 of your presentation you show the available capital. Can you give us the component of this available capital? In particular is the €500 million P&C surplus in claims included in this €3 billion available capital?

Peter Hagen

OK, I will start with your first two questions, Peter Hagen speaking. We do disclose - maybe I should just explain where this half a billion is coming from. In the course of determining the embedded value, obviously in the adjustment net asset value also as an adjustment to the net asset value redundancies or deficiencies in claims and other technical research non-life are included. Within this context we also obviously are calculating any sort of deficiencies and redundancies and we do this since we are publishing the embedded value, so it's not a new thing. This figure is audited separately from our normal auditing by Deloitte, Cologne and is so to speak testified.

In our publications of the embedded value you will find the redundancies of claims reserve as testified by Deloitte after tax. Last year it was around - last year being 2010 in this case - about 480 million and this year is about 500, so basically we have increased this redundancies in the reserves. I have been responsible for some of the major companies particularly the claims reserving. I personally assume that in fact our reserves are even higher but that's my personal opinion. Obviously we need to be prudent. We want to have the certification by Deloitte so that is testified after tax redundancies.

Combined ratio or the reserve development, you have seen. Obviously we have published for the first time some triangles confirming what we have always said on this question that we are basically about 8% to 10%, 10% to 12% actually running off from the initial claims reserve. That is converting on a gross basis almost in the same as a percentage of premium because claims reserve and premium in this case are almost the same basically because we are very much leaning towards the Central Eastern European companies where loss reserve staggering is not yet long enough. But anyway we have roughly 1:1 position in reserves and premium. On a net basis or gross basis, on a net basis you can say as a rule of thumb between 7% and 8%, 8.5% each and every year as going into the combined ratio. But that hasn't changed over the years; that's fairly consistent.

On Romania, the question on Romania, no we do not have a structural disadvantage. Quite to the contrary, I think we are the most diversified in many areas not only in terms of the business portfolio but also in distribution etc, etc. Maybe we are just suffering from our prudence. That means that we are obviously emphasising a proper reserving and also in other ways probably doing adjustments to premiums etc in a proper way. So, no we do not suffer from a structural change so if other companies are enjoying better results you might merely question that.

On the cost side the same applies. Quite to the contrary, we are the clear market leader in Romania so our cost structure also very high, I agree. It is certainly one of the best in the country. Having said so, you might have to compare gross and net cost ratios of competitors how much reinsurance might have an influence on net cost situation. When it comes to the gross costs, as I said, we agree the costs are too high. This is why we do a whole set of synergy projects, one of it being the merger between BCR and Omniasig which I have mentioned earlier because we found that just this shared back offices which we usually prefere to do it is not sufficient to generate the synergies that we want to have in Romania. Third question to you.

Martin Simhandl

Concerning your third question about solvability according to the Solvency I regulations, this is done at the calculation according to the Austrian regulation basis is the IFRS group capital. I am speaking here about the equity, intangible equity of the Group, net of minorities to add their those subordinated capital that can be accounted and to add part of the hidden reserves of real estate. That's more or less all.

Peter Hagen

What is not in it are the €500 million in the loss reserves.

Michael Haid - Main First Bank

OK. Maybe one additional question regarding Romania. Can you tell us how much you increase prices over the past, say, two years? I have a figure in mind, by 30%, but I am not sure whether this is correct?

Peter Hagen

No, this is quite correct. However, I have to tell you again we have various companies in Romania. We had a particular problem in Omniasig as we have reported during last year the whole time and there it was really necessary to go up with prices even in excess of 30%.

Michael Haid - Main First Bank

OK, great. Thank you very much.

ACT Operator

As a reminder, if there are any further questions, please press *1 now.

One moment please. There appeared to be no further questions, please go ahead.

Nina Higatzberger

Thank you, Sandra. Ladies and gentlemen, thanks for listening in. We hope to have you with us again on 23 May when we are going to release the first quarter results. Goodbye.

ACT Operator

Ladies and gentlemen, that does conclude the Vienna Insurance Group conference call. Thank you for participating. You may now disconnect.

END OF CONFERENCE